About the Project

Project Name: Accessing the low income market -- Old Mutual
Type of Facility Project: Microinsurance innovation grantee
Country of Operation: South Africa
Region: Africa
Sub Topics: Business viability, Client interface, Sales, Retailers, Mobile network operators, Partnerships, Consumer education, Impact, Life
Type of Risk Carrier: Regulated insurance company
Type of Distribution Channel: Bank

Organizational Overview

Old Mutual is a leading international long term savings group, established in 1845 in South Africa and now operating in 38 countries world-wide. Old Mutual operates the largest financial services business in South Africa providing wealth management, investment products, retirement savings, life, disability and health insurance to individuals and groups. Old Mutual operates in other parts of Africa namely Namibia, Zimbabwe, Malawi, Kenya and Swaziland. Old Mutual is a trusted brand, with a strong market presence among South African consumers across all market segments. Its banking business in Africa is conducted by the Nedbank Group and its South African general insurance business is conducted by Mutual & Federal Insurance Company. Old Mutual has the controlling interest in both companies.

Project Description

In 2007, Old Mutual Retail Mass Market division launched its Foundation Market strategy by setting up a distinct business unit to focus on the low-income market segment in South Africa. The unit counts 10 permanent staff at head Office and 75 agents as a sale force. The Unit shares some resources (such as actuarial, marketing, HR) with other departments of the company. The target market segment has a household/personal income of up to R3000 per month, which is also expressed as LSM 1 to 5 in the...READ MORE [2]

Beneficiaries

The project targets low-income individuals and communities in peri-urban and rural areas that despite their income levels are economically active and need appropriate access to financial services. The vision is to target an outreach of 1 million clients by 2020.

Learning Agenda

- How effective are distribution models that take account of community involvement, technology impact, salaried vs. alternate distribution agents and the differences between rural and peri-urban environments?
- How does the financial behaviour of low-income households impact product development, marketing and distribution?
- What is the impact of consumer education programmes on purchasing behaviour?

Project Status

Key Performance Indicators
Project Updates

As of October 2010 BSSP/GFS Due to the high claim ratio observed in the portfolio from 2005 to 2008, an aggressive clean-up process was undertaken towards the end of 2008, where rates were increased for groups with higher claims ratios, resulting in a contraction of the portfolio in 2009 (from more than 100,000 principal members in 2007 to 60,000 at the end of 2009). While this was a material loss of business for OM, it improved the overall quality of the remaining client portfolio, and th... READ MORE [2]

Project Lessons

On identifying the most effective business model to reach the foundation market Prior market research indicates that both group and individual buying behavior exist within the foundation market. Both must be considered in order to effectively reach this market. As such, Old Mutual’s Foundation Market strategy takes into account group buying behavior through its affinity-based and community-based model, and individual... READ MORE [2]

On creating a Microinsurance Business Unit Microinsurance activities require different processes than traditional business, both for product development and monitoring and evaluation. Creating a separate business unit can help to set different standards for microinsurance products, but the unit needs to have a clear mission/vision statement, define clear objective and develop an appropriate M&E framework (which can include both quantitative and qualitative)... READ MORE [2]

On product design A group product design with a flat rate enables inclusive coverage. The BSSP product is attractive for rural populations, as it mimics informal mechanism for funeral coverage, and is easy to understand for the target population thanks to its flat rate. There are neither age limits at registration nor exclusions, and no underwriting requirements, as adverse selection is limited thanks to the mandatory registration of all group members. But if... READ MORE [2]

On the importance of monitoring and evaluation Regular monitoring of mortality experience and adjustments to rates and/or benefits has resulted in a significant improvement in claims ratios. Old Mutual initially experienced challenges with the claims ratio of its group funeral insurance product, with a ratio over 100 per cent in 2005 and 2006. This was partly due to the mortality experience, which was higher than expected based on data from other market segments. READ MORE [2]

On sales management Direct sales costs can be contained if the product is sold on a group basis. The BSSP/GFS design enable sales agents to manage, on average, 1500 principal members, or 6000 lives covered per agent. In 2011, the cost of the sales force represented 27 per cent of the premium collected, even for a product with monthly premium. OM’s objective is to decrease this ratio to 14 per cent through a better incentive structure and more efficient pro... READ MORE [2]

On the impact of competition and regulation Competition leads to price pressure and greater efficiencies. If in 2003, OM was a pioneer in servicing the low-income market, competition is now high in this segment (especially from cell captives) and implies price pressure. OM had to review its pricing and offer to cope with the situation, including lower expense ratio assumptions. OM needs to find more efficient ways to sell the BSSP product and has introduced... READ MORE [2]

On building effective partnerships It is important to involve the distribution channel in the marketing campaign design, as it knows the market. In the case of PWYC, the marketing plan was developed jointly between Old Mutual and Shoprite: although led by the marketing team at Old Mutual, Shoprite had input into the marketing material and plans and insisted on having sign off authority on all the material to be displayed in Shoprite stores. It was a signific... READ MORE [2]

On comparing direct sales model vs retailer model It is difficult to efficiently motivate and monitor the front line staff in the retail distribution model. First, the staff turnover is high and it is difficult for cashiers to know the PWYC processes. Moreover, in the Shoprite arrangement, several funeral products are available at the till, and cashiers often do not know the specific registration process for each. In this set up, it is also difficult to set... READ MORE [2]

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